

Military Market

MAGAZINE FOR THE MILITARY RETAIL SYSTEM

C8910-1
2/24/87

What's the State Department Doing to Embassy Co-ops?

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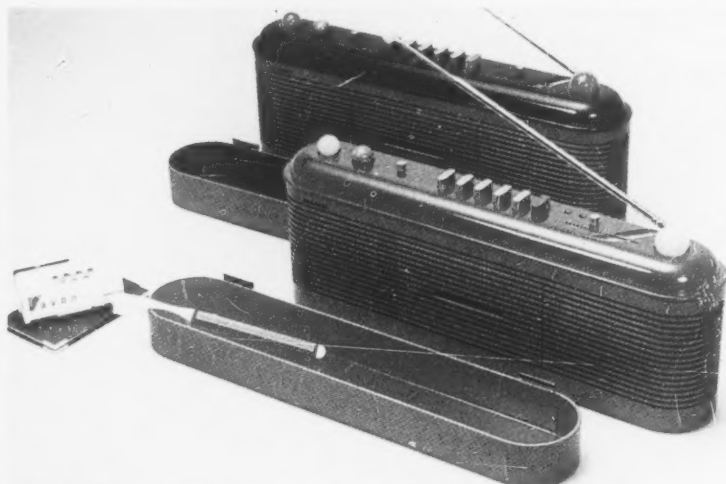
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and Frozen Foods

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MILITARY MARKET, (USPS 911-580):

Published 12 times a year by the Army Times Publishing Co., a division of The Times Journal Co., Springfield, Va. 22159-0210. Single copies: \$4; except January Buyers Guide, July Almanac & Directory: \$10 each. Subscriptions: 1 year, \$35 (outside U.S., \$45); 2 years, \$60 (outside U.S., \$75); 1 year, outside U.S. via airmail, \$180. Second class postage paid at Springfield, Va. and additional mailing offices. **POSTMASTER:** Send address changes to Military Market Magazine, Springfield, Va. 22159-0210.

system of the month

What's the State Department Doing To Embassy Co-ops?

Inspector General recommends big changes for cooperatives.

By **BEVERLY M. JONES**

Associate Editor

The employee associations at U.S. embassies overseas will be reorganized as the result of an audit done by the State Department's inspector general.

The IG report recommends sweeping internal changes for the 137 employee associations, although their basic structure will remain intact.

Despite months of foot-dragging, Congressional pressure will apparently prevail in forcing State to make the recommended changes.

The associations are employee-run cooperatives which run retail activities varying from tiny liquor lockers and convenience stores to full scale commissary and exchange operations. The average operation does between \$100,000 and half a million dollars a year in business [see chart].

They also perform contracting at U.S. embassies, consulates and related offices abroad.

The cooperatives are a loose confederation which reports to the State Department's Office of Commissary and Recreation Affairs (OCRA) in Rosslyn, Va.

Rep. Jack Brooks (D-Texas) is chairman of the House Committee on Government Operations, which oversees the State Department. Brooks is known for his interest in the status of the associations.

When asked by **MILITARY MARKET** for a comment on the IG report, Brooks said through a spokesman that, "The Inspector General has produced an excellent report. The report clearly documents the very serious problems that continue to plague the operations of the employee associations.

"In addition, the Inspector General has developed many solid common sense recommendations that should be implemented immediately.

Brooks noted that there has been resistance to the report among some State Department officials:

"I was extremely disappointed when the department's top management rejected virtually all the IG's recommendations. It is only after months of foot-dragging that man-

agement has agreed — at least on paper — to implement these long overdue reforms.

"The [Government Operations] committee will be watching very closely to make certain that management lives up to its commitments. In addition, we will looking to see whether even more extensive changes are needed to assure accountability in employee association operations.

"We will be watching them like a hawk. Above all, we will looking at what the State Department management is actually *doing* about these problems, not what they *say* they will do."

Disobeying Department Directives

Despite improvements made in recent years, says the report, "many associations continue to disobey Department directives, fail to implement Department guidelines, have inadequate internal controls, lack accurate and complete accounting and managerial data, have unsound financial practices, and have poorly trained managers."

Changes are needed because, under the agency's current organizational configuration, "the Department doesn't have the capability to rapidly develop the ingredients essential for successful association operations worldwide."

Several State Department officials declined to comment about the report. "We do not publicly comment on internal IG reports," Richard Faulk, director of the agency's operations division, told **MILITARY MARKET** after the magazine obtained a copy of the report.

"We don't comment on internal audits," said Dan Johnson, special assistant to Donald J. Bouchard, assistant secretary for administration. The secretary oversees the agency's operations division, which supervises OCRA.

Faulk said, however, that the agency "will be implementing the recommendations. We think in the long run that the organization will be a stronger operation organizationally for it."

The Bureau of Administration, which oversees the commissary and recreation affairs office, openly admits there are big problems facing the associations.

"We recognize we made mistakes, but we also don't want to make more mistakes by leaping in recklessly,"

system of the month

What State's IG Report Asks—

■ Revise the existing operations structure to encompass an organization responsible for both monitoring the operations of the associations and for developing the support systems needed by the associations.

■ Convert the source for operating costs from appropriated to nonappropriated funds and hire a technically competent contractor and/or contract staff to develop and deploy the support systems needed by the associations.

■ Revise operating guidelines to include a worldwide charter which would give procedures for reporting any association's noncompliance with department directives and steps for automatically revoking an association's charter if an association repeatedly fails to observe department directives or the charter.

■ Convert the position of executive director for commissary and recreation affairs to a GS position to ensure continuity, and abolish the deputy director position.

■ Tap the existing assets of the central commissary and recreation fund as necessary, to fund the initial activities of the organization.

■ If needed, place special assessments upon the associations during the developmental period to provide additional and future funding for the startup of the organization and support systems.

■ Quantify the amount of future funds needed for developing the expanded organization and developing or procuring, testing and installing support systems.

■ Require all associations to contribute a percentage of their gross sales (excluding contracting revenues) to the central fund to ensure continual funding of the new organization.

■ Categorize associations as large (\$100,000 or more in sales) and small (less than \$100,000 in sales).

■ Develop and install standardized, worldwide accounting systems which associations with revenues of less than \$100,000 can implement and which associations with \$100,000 or more in revenues will use.

■ Purchase standardized management information systems and report formats geared to the needs of small and large associations, post and association managers, board members, and department-level managers.

■ Procure standardized financial management practices for both categories of associations.

■ Develop operating procedures for both large and small associations, and manuals and regulations which explain "how to" start up, operate, and maintain associations and activities such as commissaries, exchanges, clubs, eating and sporting facilities.

■ Distribute to association and post managers and board members the department's handbook and messages, issued by Financial Systems, Office of the Comptroller, Under Secretary for Management, which explain why internal controls are needed and how these controls are used.

■ Provide technical teams which will be available to assist associations in setting up and implementing the support systems needed.

■ Ensure that Foreign Service Institute administrative officer training programs include modules on how to operate associations, identify reporting and operating requirements, and specify the services and resources available to associations.

said a State Department official who asked not to be identified.

Current plans call for a follow-up audit in late summer or early fall "to determine whether the office is implementing those recommendations," said Byron Hollingsworth, acting inspector General for the State Department.

Audit Makes Its Points

The IG audit of 21 overseas posts was done between March and November 1985, and was published internally in March 1986. All the 137 employee associations received a copy of the report and "were advised to look at closely," Hollingsworth said.

Basically, the report recommends that the employee associations report to the agency's commissary and recreation affairs office more faithfully than they do now.

They should also contribute to a central fund which would finance an expanded OCRA, develop standardized accounting systems, and sign a new charter that shows they agree with all of the recommendations. [EDITOR'S NOTE: See list of 16 recommendations on page 20].

Each State Department employee association is run by a board of directors, elected annually by the membership. The membership consists of the State Department employees stationed at that post, along with their family members. The board hires the commissary manager and runs the recreational activities at that location.

Traditionally, each association was its own island. However, three years ago, the State Department created OCRA to provide support and financial analysis for the associations.

The office maintains the central commissary and recreation fund (currently about \$1.2 million). The central fund is supported by voluntary contributions from the associations, and is used like a bank, providing them with interest-free loans.

One of the toughest questions facing the system is whether OCRA should continue as an appropriated fund agency, supported by the State Department, or if it should be funded by contributions from the associations. The report suggests that the costs of the office be paid from nonappropriated funds sources, thus "saving the government at least \$179,000 annually."

The nonappropriated funds would come from the associations. They would be required — not asked — to contribute a percentage of their sales to the fund. This would "cover the new organization's expenses, provide loans or grants to constituent associations and . . . develop required support systems."

Many Problems

The audit identified a number of major problem areas in association management:

■ "... Many associations are disobeying reporting and operational requirements or are not implementing department guidelines."

■ Accounting systems are inaccurate, not current or nonexistent.

■ Local management information reports are not geared to provide post or association managers accurate or complete information.

■ Existing financial practices expose associations to unnecessary risk.

SALES OF EMPLOYEE ASSOCIATIONS

(includes contract income)

Annual Sales	Number of Associations
More than \$1,000,000	10
\$500,001 to \$1,000,000	14
\$100,001 to \$500,000	9
\$100,000 or less	23

SOURCE: State Department

EMPLOYEE ASSOCIATION REVENUES

(multiples of \$1 million)

Source	Fiscal 1984	Fiscal 1985
Commissary sales	34.0	32.2
Exchanges sales	2.8	3.5
Food Service	9.9	10.3
Recreation Facilities	2.6	1.7
Rental Income	1.1	1.1
Other Service	1.0	0.9

- There is a lack of trained, qualified managers.
- There are inadequate internal controls for preventing waste, fraud and mismanagement.
- Voting rights in employee associations are not limited to U.S. government employees residing at the post.
- Third country diplomats are often given access to association facilities.

Inconsistent Finances

Many posts have no formal accounting procedures. If they do exist, they are not always kept up to date.

"At about one-third of the posts sampled, crucial documents were missing, financial records were incomplete or incomprehensible, or the records did not exist," the auditor said in their report.

Associations are required to submit financial reports every six months and conduct annual audits of their operations. However, 38 percent of the associations sampled missed those deadlines. "Some posts received three to four reminders and still failed to submit the information."

When they did send financial data to the department, it was sometimes inaccurate or incompatible with other information. As a result, outside auditors were unable to complete a thorough financial analysis of many association facilities.

Of the 21 associations surveyed, 58 percent had unusable accounting records, 42 percent did not use a chart for accounts, and 46 percent had records which were not current. In addition, 42 percent of the posts were assessed as having poor cash management and no receipts for release of petty cash.

"The need for adequate internal controls was highlighted when a State Department inspection team discovered an assistant association manager was embezzling funds, but the post was unable to quantify the extent of the embezzlement because accounting records were unreliable," the report said.

Inexperienced Managers

Accurate financial records result from consistently reliable management, but this is a variable at associations, the report asserts. Many managers and board members are new and inexperienced and "therefore learn by trial and error, mostly error."

Many managers have neither the time nor the resources to develop support systems like standardized accounting or management information devices that would help them monitor their operations.

"Association personnel do not know how to set up and maintain accounting systems and do not have the staff for such projects." Lacking the reports needed to perform the job effectively, managers have a tough time assessing the association's business needs.

A survey of 33 association managers found that:

- 45 percent had 12 or fewer months of experience.
- 21 percent had one to three years experience.
- 27 percent were spouses of post personnel.
- 33 percent were local nationals.
- 33 percent were U.S. contract employees.

According to the audit, some managers at smaller stores adopted their own management systems because the offi-

cal operating handbook did not apply. "Some associations lacked the resources to comply with the handbook requirements . . . while some found the guidelines inapplicable to implement."

The department will have to revise its handbook, the report recommended, so all the procedures can apply to all the associations.

But the problems go deeper than a handbook. At the posts surveyed, 71 percent of the principal officers [generally the ambassador] indicated no involvement with the local association. Instead, they delegated that responsibility to a deputy.

As a result, the ambassadors or their designees "were unaware their associations were not complying with department reporting and were not addressing weaknesses within the association."

State requires that each ambassador periodically review his association's operation and monitor its activities to make sure that it is managed prudently.

However, the report said that ambassadors had more important priorities and did not have the time to become involved and "could not provide the required vigilance."

The report noted that association managers and board members have little or no motivation to comply with State Department requirements if the embassy management doesn't have time to bother with associations, either.

GAO Report Hits Contracting

While the State Department's IG report tackled the management and operation problems of the associations, a separate General Accounting Office report published around the same time attacked the contracting operations of the employee associations.

The GAO report said that, as of November 1985, 67 of the 137 employee associations had contracts with the government, involving more than 8,800 contract employees and valued at \$38 million. Embassies have contracted with associations to provide services such as security guards, maintenance workers, and janitors.

"We recommend terminating existing service contracts between embassies and employee associations as soon as possible," the GAO report said. A State Department decision to end association contracts was a direct result of the GAO report.

Richard Faulk, the agency's operations director, told MILITARY MARKET last June that, "in the long run, it [the decision to end the contracts] will have little or no effect on the facilities."

All contracts are to be dissolved by September 1987 and replaced by contracts with local personnel or outside contractors.

Contracts were "sham contracts under which employee associations performed minimal contract administration functions while profiting from management fees," the GAO report said.

According to the GAO, associations used profits from contracting to subsidize activities such as snack bars and recreation centers. Department guidelines say such profits are not normally allowed because an association is not an independent entity and assumes no risk in contracting with the government.

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COMMISSARIES

		OCTOBER			YEAR TO DATE		
		CY'86	CY'85	% CHANGE	CY'86	CY'85	% CHANGE
AIR FORCE	CONUS	\$165,386	\$160,953	2.75	\$1,559,135	\$1,545,020	0.91
	OVERSEAS	32,601	29,459	10.67	301,754	263,155	14.67
	TOTAL	197,987	190,412	3.98	1,860,889	1,808,175	2.92
ARMY	CONUS	115,185	109,515	5.18	1,096,095	1,065,120	2.91
	OVERSEAS	38,430	33,180	15.82	356,790	309,645	15.23
	TOTAL	153,615	142,695	7.65	1,452,885	1,374,765	5.68
NAVY	CONUS	57,224	55,798	2.56	618,368	622,559	-0.67
	OVERSEAS	6,667	6,303	5.78	71,334	69,252	3.02
	TOTAL	63,891	62,101	2.88	689,712	691,811	-0.30
MARINE CORPS	CONUS	14,603	14,629	-0.18	138,474	140,540	-1.47
	OVERSEAS	274	284	-3.52	2,620	2,531	3.52
	TOTAL	14,877	14,913	-0.24	141,094	143,071	-1.38
COAST GUARD	CONUS	291	302	-3.64	2,580	2,654	-2.79
	OVERSEAS*	280	277	1.08	2,905	2,927	-0.75
	TOTAL	571	579	-1.38	5,485	5,581	-1.72
ALL COMMISSARIES	CONUS	\$352,689	\$341,197	3.37	\$3,414,652	\$3,375,893	1.15
	OVERSEAS	\$78,252	\$69,503	12.59	\$735,413	\$647,510	13.58
	TOTAL	\$430,941	\$410,700	4.93	\$4,150,065	\$4,023,403	3.15
GROCERY STORES	U.S. ¹	\$23,808	\$22,408	6.29	\$229,465	\$219,374	4.60

* estimated

EXCHANGES

		OCTOBER			YEAR TO DATE		
		CY'86	CY'85	% CHANGE	CY'86	CY'85	% CHANGE
AAFES	CONUS	\$246,917	\$233,339	5.82	\$2,386,805	\$2,346,495	1.72
	OVERSEAS	180,390	157,904	14.24	1,681,554	1,531,467	9.80
	TOTAL	427,307	391,243	9.22	4,068,359	3,877,962	4.91
NAVY	CONUS ²	95,467	91,111	4.78	872,388	868,055	0.50
	OVERSEAS ²	42,176	37,676	11.94	384,496	362,624	6.03
	TOTAL ²	137,643	128,787	6.88	1,256,884	1,230,679	2.13
MARINE CORPS	CONUS	29,915	29,434	1.63	280,291	285,244	-1.74
	OVERSEAS	4,990	4,669	6.88	48,683	48,469	0.44
	TOTAL	34,905	34,103	2.35	328,974	333,713	-1.42
COAST GUARD	CONUS ³	6,877	6,482	6.09	67,510	66,036	2.23
	OVERSEAS ³	512	492	4.07	5,027	5,044	-0.34
	TOTAL ³	7,389	6,974	5.95	72,537	71,080	2.05
MAIL ORDER	CONUS ⁴	1,318	1,213	8.66	12,221	10,931	11.80
	OVERSEAS ⁴	2,719	3,620	-24.89	30,207	31,331	-3.59
	TOTAL ⁴	4,037	4,833	-16.47	42,428	42,262	0.39
ALL EXCHANGES	CONUS	\$380,494	\$361,579	5.23	\$3,619,215	\$3,576,761	1.19
	OVERSEAS	\$230,787	\$204,361	12.93	\$2,149,967	\$1,978,935	8.64
	TOTAL	\$611,281	\$565,940	8.01	\$5,769,182	\$5,555,696	3.84
DEPARTMENT STORES	U.S. ¹	\$11,890	\$11,216	6.01	\$105,684	\$99,931	5.76

1) SOURCE: U.S. Department of Commerce. 2) Does not include sales of ship stores. 3) MM estimate, based on official data. 4) Includes consolidated sales for all services, including Coast Guard.

NOTE: Individual figures may not add to totals because of rounding. All sales are expressed in millions (add 000), except grocery stores and department stores, which are in billions. Commissary sales include appropriate surcharges, exchange sales include concession volume.